

**Good Shepherd Ministries
of Wilmington, Inc.
and Affiliate**

Combining and Combined Financial Statements

*For the Year Ended June 30, 2019
(with Comparative Totals for 2018)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Good Shepherd Ministries of Wilmington, Inc. and Affiliate

We have audited the accompanying combining and combined financial statements of Good Shepherd Ministries of Wilmington, Inc. (a nonprofit organization) and affiliate, which comprise the combining and combined statement of financial position as of June 30, 2019, and the related combining and combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining and combined financial statements.

Management's Responsibility for the Combining and Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combining and combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining and combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combining and combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining and combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combining and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining and combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combining and combined financial statements referred to above present fairly, in all material respects, the financial position of Good Shepherd Ministries of Wilmington, Inc. and affiliate as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Good Shepherd Ministries of Wilmington, Inc. and affiliate's 2018 combining and combined financial statements, and we expressed an unmodified audit opinion on those audited combining and combined financial statements in our report dated October 15, 2018. In our opinion, the summarized comparative combined information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited combining and combined financial statements from which it has been derived.

Eamy & Company, L.L.P.

Wilmington, North Carolina
September 16, 2019

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Combining and Combined Statement of Financial Position
As of June 30, 2019

	2019										2018 Comparative Combined Total	
	Good Shepherd					Lakeside Partners						Combined Total
	Without Donor Restrictions		With Donor Restrictions		Total	Without Donor Restrictions		With Donor Restrictions		Total		
	Operations	Property	Purpose or Time Restricted	Perpetual in Nature		Operations	Property	Purpose or Time Restricted	Total			
ASSETS												
Current Assets												
Cash & cash equivalents	\$ 811,046	\$ -	\$ 11,900	\$ -	\$ 822,946	\$ 348,264	\$ -	\$ -	\$ 348,264	\$ 1,171,210	\$ 2,428,611	
Prepaid expenses	22,341	-	-	-	22,341	9,698	-	-	9,698	32,039	37,184	
Investments	386,665	-	-	-	386,665	-	-	-	-	386,665	369,387	
Grants & other receivables	55,582	-	-	-	55,582	-	-	-	-	55,582	176,523	
Total Current Assets	<u>1,275,634</u>	<u>-</u>	<u>11,900</u>	<u>-</u>	<u>1,287,534</u>	<u>357,962</u>	<u>-</u>	<u>-</u>	<u>357,962</u>	<u>1,645,496</u>	<u>3,011,705</u>	
Assets Whose Use is Limited												
Rising Tide Fund (Note 8)	-	-	41,144	53,602	94,746	-	-	-	-	94,746	91,289	
Required reserves (Note 5)	-	-	-	-	-	-	-	68,020	68,020	68,020	59,647	
Total Assets Whose Use is Limited	<u>-</u>	<u>-</u>	<u>41,144</u>	<u>53,602</u>	<u>94,746</u>	<u>-</u>	<u>-</u>	<u>68,020</u>	<u>68,020</u>	<u>162,766</u>	<u>150,936</u>	
Net property (Note 2)	<u>-</u>	<u>2,823,609</u>	<u>-</u>	<u>-</u>	<u>2,823,609</u>	<u>-</u>	<u>5,627,712</u>	<u>-</u>	<u>5,627,712</u>	<u>8,451,321</u>	<u>5,483,567</u>	
Due to/due from (Note 9)	<u>500,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,643</u>	<u>-</u>	<u>(500,643)</u>	<u>-</u>	<u>(500,643)</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 1,776,277</u>	<u>\$ 2,823,609</u>	<u>\$ 53,044</u>	<u>\$ 53,602</u>	<u>\$ 4,706,532</u>	<u>\$ 357,962</u>	<u>\$ 5,127,069</u>	<u>\$ 68,020</u>	<u>\$ 5,553,051</u>	<u>\$ 10,259,583</u>	<u>\$ 8,646,208</u>	
LIABILITIES & NET ASSETS												
Current Liabilities												
Accounts payable	\$ 9,717	\$ -	\$ -	\$ -	\$ 9,717	\$ -	\$ 503,300	\$ -	\$ 503,300	\$ 513,017	\$ 22,414	
Accrued salaries & payroll taxes	34,060	-	-	-	34,060	-	-	-	-	34,060	31,728	
Current maturities of long-term debt (Note 6)	-	5,596	-	-	5,596	-	-	-	-	5,596	12,331	
Total Current Liabilities	<u>43,777</u>	<u>5,596</u>	<u>-</u>	<u>-</u>	<u>49,373</u>	<u>-</u>	<u>503,300</u>	<u>-</u>	<u>503,300</u>	<u>552,673</u>	<u>66,473</u>	
Long-Term Liabilities												
Refundable advances (Note 5)	-	875,000	-	-	875,000	-	1,133,974	-	1,133,974	2,008,974	1,725,000	
Long-term debt (Note 6)	-	-	-	-	-	-	-	-	-	-	28,514	
Total Long-Term Liabilities	<u>-</u>	<u>875,000</u>	<u>-</u>	<u>-</u>	<u>875,000</u>	<u>-</u>	<u>1,133,974</u>	<u>-</u>	<u>1,133,974</u>	<u>2,008,974</u>	<u>1,753,514</u>	
Total Liabilities	<u>43,777</u>	<u>880,596</u>	<u>-</u>	<u>-</u>	<u>924,373</u>	<u>-</u>	<u>1,637,274</u>	<u>-</u>	<u>1,637,274</u>	<u>2,561,647</u>	<u>1,819,987</u>	
Net Assets												
Without donor restrictions	1,238,067	1,943,013	-	-	3,181,080	357,962	3,489,795	-	3,847,757	7,028,837	6,622,517	
Board designated	494,433	-	-	-	494,433	-	-	-	-	494,433	-	
With donor restrictions (Note 7)	-	-	53,044	53,602	106,646	-	-	68,020	68,020	174,666	203,704	
Total Net Assets	<u>1,732,500</u>	<u>1,943,013</u>	<u>53,044</u>	<u>53,602</u>	<u>3,782,159</u>	<u>357,962</u>	<u>3,489,795</u>	<u>68,020</u>	<u>3,915,777</u>	<u>7,697,936</u>	<u>6,826,221</u>	
Total Liabilities & Net Assets	<u>\$ 1,776,277</u>	<u>\$ 2,823,609</u>	<u>\$ 53,044</u>	<u>\$ 53,602</u>	<u>\$ 4,706,532</u>	<u>\$ 357,962</u>	<u>\$ 5,127,069</u>	<u>\$ 68,020</u>	<u>\$ 5,553,051</u>	<u>\$ 10,259,583</u>	<u>\$ 8,646,208</u>	

The Accompanying Notes are an Integral Part of these Combining and Combined Financial Statements

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Combining and Combined Statement of Activities
For the Year Ended June 30, 2019

	2019											2018 Comparative Combined Total
	Good Shepherd					Lakeside Partners					Combined Total	
	Without Donor Restrictions		With Donor Restrictions		Total	Without Donor Restrictions		With Donor Restrictions		Total		
	Operations	Property	Purpose or Time Restricted	Perpetual in Nature		Operations	Property	Purpose or Time Restricted	Total			
SUPPORT & REVENUE												
Department of Veterans Affairs - Per Diem	\$ -	\$ -	\$ 226,710	\$ -	\$ 226,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,710	\$ 172,990
US Dept. of HUD	-	-	-	-	-	-	-	-	-	-	-	36,550
City of Wilmington	-	-	89,055	-	89,055	-	-	-	-	-	89,055	86,822
FEMA	-	-	14,529	-	14,529	-	-	-	-	-	14,529	17,400
New Hanover County	-	-	46,250	-	46,250	-	-	-	-	-	46,250	25,000
NC DHHS - ESGP	-	-	62,783	-	62,783	-	-	-	-	-	62,783	145,514
United Way	-	-	48,600	-	48,600	-	-	-	-	-	48,600	48,600
Cape Fear Memorial Foundation	-	-	75,000	-	75,000	-	-	-	-	-	75,000	75,000
Lehto Foundation	-	-	-	-	-	-	-	-	-	-	-	50,000
Contributions	1,794,620	-	204,886	-	1,999,506	162,925	-	-	-	162,925	2,162,431	1,297,860
In-kind contributions	2,301,532	-	-	-	2,301,532	-	-	-	-	-	2,301,532	1,943,699
Special events, net	435,429	-	-	-	435,429	-	-	-	-	-	435,429	337,203
Investment income	23,751	-	3,457	-	27,208	13,232	-	-	-	13,232	40,440	37,258
Program service fees	45,381	-	-	-	45,381	131,769	-	-	-	131,769	177,150	155,817
Management fee income (Note 11)	35,000	-	-	-	35,000	-	-	-	-	-	35,000	35,000
Other income	3,134	-	-	-	3,134	200	-	-	-	200	3,334	35,365
Net assets released from restriction	755,913	-	(755,913)	-	-	112,415	-	(112,415)	-	-	-	-
Total Support & Revenue	5,394,760	-	15,357	-	5,410,117	420,541	-	(112,415)	308,126	5,718,243	4,500,078	
EXPENSES												
Program	4,055,004	118,235	-	-	4,173,239	113,807	75,333	-	189,140	4,362,379	3,499,700	
Administration	231,373	20,865	-	-	252,238	1,305	-	-	1,305	253,543	252,166	
Fundraising	230,606	-	-	-	230,606	-	-	-	-	230,606	226,375	
Total Expenses	4,516,983	139,100	-	-	4,656,083	115,112	75,333	-	190,445	4,846,528	3,978,241	
Change in Net Assets	877,777	(139,100)	15,357	-	754,034	305,429	(75,333)	(112,415)	117,681	871,715	521,837	
Net Assets, Beginning, As Previously Reported	1,116,831	1,820,005	37,687	53,602	3,028,125	1,771,803	1,913,878	112,415	3,798,096	6,826,221	6,516,302	
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	(211,918)	
Net Assets, Beginning, As Restated	1,116,831	1,820,005	37,687	53,602	3,028,125	1,771,803	1,913,878	112,415	3,798,096	6,826,221	6,304,384	
Transfers	(262,108)	262,108	-	-	-	(1,719,270)	1,651,250	68,020	-	-	-	
Net Assets, Ending	\$ 1,732,500	\$ 1,943,013	\$ 53,044	\$ 53,602	\$ 3,782,159	\$ 357,962	\$ 3,489,795	\$ 68,020	\$ 3,915,777	\$ 7,697,936	\$ 6,826,221	

The Accompanying Notes are an Integral Part of these Combining and Combined Financial Statements

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Combining and Combined Statement of Functional Expenses
For the Year Ended June 30, 2019

	6/30/2019						2018 Comparative Combined Total	
	Program		Administration		Fundraising			
	Good Shepherd	Lakeside Partners	Good Shepherd	Lakeside Partners	Good Shepherd	Lakeside Partners		
Salaries	\$ 788,094	\$ -	\$ 153,106	\$ -	\$ 187,066	\$ -	\$ 1,128,266	\$ 1,095,463
Employee benefits	79,517	-	15,448	-	18,874	-	113,839	92,905
Payroll taxes	59,377	-	11,535	-	14,094	-	85,006	77,922
Total Salaries & Related Expenses	<u>926,988</u>	<u>-</u>	<u>180,089</u>	<u>-</u>	<u>220,034</u>	<u>-</u>	<u>1,327,111</u>	<u>1,266,290</u>
Contract labor	-	2,419	-	-	-	-	2,419	-
Professional fees	5,805	35,099	3,943	-	1,205	-	46,052	67,833
Other program expenses	105,263	564	-	-	-	-	105,827	71,050
Donations (Note 10)	375,000	-	-	-	-	-	375,000	-
Office expenses	65,644	11,740	8,005	1,305	6,404	-	93,098	73,138
Rent	7,451	14,561	481	-	80	-	22,573	19,577
Utilities	123,832	31,042	7,989	-	1,332	-	164,195	150,554
Repairs & maintenance	40,590	4,853	2,619	-	436	-	48,498	68,286
Transportation	24,050	436	-	-	243	-	24,729	23,005
Interest	4,744	-	306	-	51	-	5,101	5,499
Insurance	76,347	11,889	4,926	-	821	-	93,983	66,017
In-kind expenses	2,278,517	-	23,015	-	-	-	2,301,532	1,943,699
Bad debt	15,343	860	-	-	-	-	16,203	-
Miscellaneous	5,430	344	-	-	-	-	5,774	3,040
Total Expenses	<u>4,055,004</u>	<u>113,807</u>	<u>231,373</u>	<u>1,305</u>	<u>230,606</u>	<u>-</u>	<u>4,632,095</u>	<u>3,757,988</u>
Depreciation	118,235	75,333	20,865	-	-	-	214,433	220,253
Special events	-	-	-	-	83,773	-	83,773	94,284
Total Functional Expenses	<u>4,173,239</u>	<u>189,140</u>	<u>252,238</u>	<u>1,305</u>	<u>314,379</u>	<u>-</u>	<u>4,930,301</u>	<u>4,072,525</u>
Special events net in revenue	-	-	-	-	(83,773)	-	(83,773)	(94,284)
Total Combined Statement of Activities Expenses	<u>\$ 4,173,239</u>	<u>\$ 189,140</u>	<u>\$ 252,238</u>	<u>\$ 1,305</u>	<u>\$ 230,606</u>	<u>\$ -</u>	<u>\$ 4,846,528</u>	<u>\$ 3,978,241</u>

The Accompanying Notes are an Integral Part of these Combining and Combined Financial Statements

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Combining and Combined Statement of Cash Flows
For the Year Ended June 30, 2019

	2019						2018	
	Good Shepherd			Lakeside Partners			Combined Total	Comparative Combined Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Cash Flows From Operating Activities								
Cash Collections for:								
Contributions & other	\$ 5,031,941	\$ 11,900	\$ 5,043,841	\$ 974,481	\$ -	\$ 974,481	\$ 6,018,322	\$ 5,063,346
Investment income, net	14,891	-	14,891	13,232	-	13,232	28,123	22,271
Less: Cash payments for expenses	(4,664,474)	-	(4,664,474)	(185,849)	-	(185,849)	(4,850,323)	(3,969,878)
Net Cash Provided (Used) By Operating Activities	<u>382,358</u>	<u>11,900</u>	<u>394,258</u>	<u>801,864</u>	<u>-</u>	<u>801,864</u>	<u>1,196,122</u>	<u>1,115,739</u>
Cash Flows From Investing Activities								
Purchase of property & equipment	(226,859)	-	(226,859)	(2,459,497)	-	(2,459,497)	(2,686,356)	(422,602)
Transfers to required reserves	-	-	-	(8,373)	-	(8,373)	(8,373)	(59,647)
Purchases & proceeds of investments, net	(8,418)	-	(8,418)	-	-	-	(8,418)	(5,881)
Net Cash Provided (Used) By Investing Activities	<u>(235,277)</u>	<u>-</u>	<u>(235,277)</u>	<u>(2,467,870)</u>	<u>-</u>	<u>(2,467,870)</u>	<u>(2,703,147)</u>	<u>(488,130)</u>
Cash Flows From Financing Activities								
Payments of principal	(34,350)	-	(34,350)	-	-	-	(34,350)	(309,000)
Proceeds from refundable advances	-	-	-	283,974	-	283,974	283,974	638,082
Net Cash Provided (Used) By Financing Activities	<u>(34,350)</u>	<u>-</u>	<u>(34,350)</u>	<u>283,974</u>	<u>-</u>	<u>283,974</u>	<u>249,624</u>	<u>329,082</u>
Net Increase (Decrease) in Cash	112,731	11,900	124,631	(1,382,032)	-	(1,382,032)	(1,257,401)	956,691
Cash & Cash Equivalents, Beginning	<u>698,315</u>	<u>-</u>	<u>698,315</u>	<u>1,730,296</u>	<u>-</u>	<u>1,730,296</u>	<u>2,428,611</u>	<u>1,471,920</u>
Cash & Cash Equivalents, Ending	<u>\$ 811,046</u>	<u>\$ 11,900</u>	<u>\$ 822,946</u>	<u>\$ 348,264</u>	<u>\$ -</u>	<u>\$ 348,264</u>	<u>\$ 1,171,210</u>	<u>\$ 2,428,611</u>
Reconciliation of Change in Net Assets to Cash Provided (Used) By Operating Activities:								
Change in net assets	\$ 738,677	\$ 15,357	\$ 754,034	\$ 230,096	\$ (112,415)	\$ 117,681	\$ 871,715	\$ 521,837
Unrealized investment (gain) loss	(8,860)	(3,457)	(12,317)	-	-	-	(12,317)	(14,987)
Amortization of NCHFA note discounts	(899)	-	(899)	-	-	-	(899)	(11,270)
Depreciation	139,100	-	139,100	75,333	-	75,333	214,433	220,253
(Increase) Decrease in:								
Prepaid expenses	6,841	-	6,841	(1,696)	-	(1,696)	5,145	(37,184)
Pledges receivable, net	-	-	-	-	112,415	112,415	112,415	402,756
Grants & other receivables	7,801	-	7,801	725	-	725	8,526	14,701
Due to/due from	(492,810)	-	(492,810)	492,810	-	492,810	-	-
Increase (Decrease) in:								
Accounts payable	(9,824)	-	(9,824)	4,596	-	4,596	(5,228)	17,736
Accrued salaries & payroll taxes	2,332	-	2,332	-	-	-	2,332	1,897
Net Cash Provided (Used) By Operating Activities	<u>\$ 382,358</u>	<u>\$ 11,900</u>	<u>\$ 394,258</u>	<u>\$ 801,864</u>	<u>\$ -</u>	<u>\$ 801,864</u>	<u>\$ 1,196,122</u>	<u>\$ 1,115,739</u>
Supplemental Disclosure								
Interest paid						\$ 5,101	\$ 5,499	
Income taxes paid						\$ -	\$ -	

The Accompanying Notes are an Integral Part of these Combining and Combined Financial Statements

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Notes to Combining and Combined Financial Statements
June 30, 2019

1. ORGANIZATION

The accompanying combining and combined financial statements include Good Shepherd Ministries of Wilmington, Inc. ("Good Shepherd") and its affiliate, Lakeside Partners of Wilmington, Inc. ("Lakeside Partners"), collectively referred to as the "Organization". These entities are related through common control and financial interdependence. All intercompany transactions are eliminated in the combining and combined financial statements.

Good Shepherd is a non-profit organization incorporated on March 17, 1987. Good Shepherd is exempt from federal income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, contributions to Good Shepherd may be deductible by donors and related purpose income is exempt from income tax. Good Shepherd files Form 990, *Return of Organization Exempt From Income Tax*, with the IRS and North Carolina Department of Revenue.

The mission of Good Shepherd is to feed the hungry, shelter the homeless, and foster transition to housing. Established as a soup kitchen in 1983, Good Shepherd has evolved over the years to provide a Day Shelter, Night Shelter, and, in 2001, the Sgt. Eugene Ashley Center, which provides transitional and permanent supportive housing for Veterans and men with disabilities. The Day Shelter provides the chronically homeless with a low-demand safe haven where they may receive mail and clean clothing and have access to telephones, restrooms, and showers. Guests also benefit from an on-site medical clinic, operated in partnership with the New Hanover County Health Department, which provides free, non-threatening access to health screenings, prescriptions, wound care, and more.

Annually, the Second Helpings Program redistributes as much as 500 tons of salvaged food, which would have otherwise been thrown away, to area programs for the low-income, children, and the elderly, in addition to enabling the soup kitchen to serve as many as 500 meals daily to the hungry.

Already the largest provider of homeless services in the tri-county area, Good Shepherd opened its Night Shelter in 2005 to better respond to an unmet need for emergency overnight beds. Open every night, year-round, the shelter can accommodate up to 118 homeless men, women, and families with children each night, providing them not only a bed, but access to food, clothing, restrooms, showers, individual case management, and housing placement. Trained staff members work with guests in developing and working toward a plan for becoming housed again.

Annually, Good Shepherd transitions approximately 150 men, women, and children from homelessness to stable housing.

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
Notes to Combining and Combined Financial Statements
June 30, 2019

Lakeside Partners is a non-profit corporation that received its 501(c)(3) designation in 2015. Good Shepherd, in partnership with Lakeside Partners, has been developing affordable housing and supportive services to those in need. On November 12, 2015, the City of Wilmington conveyed a 4.26 acre parcel of property to Lakeside Partners with a restriction that the property be developed and used as permanent supportive housing for the formerly homeless.

On this property, Lakeside Partners has developed a community called SECU Lakeside Reserve, which consists of 40 units of permanent supportive housing built for chronically homeless persons with disabilities, including seniors and Veterans. The community also provides common areas for group activities, on-site case management, and supportive services (e.g. transportation, counseling, etc.) provided by Good Shepherd's staff. The housing has been developed in two phases. The first phase is a congregate living facility with 16 one-bedroom housing units. Construction was completed and the Certificate of Occupancy was issued on June 28, 2017.

The second phase of the community consists of six "breezeway quads" with an additional 24 one-bedroom housing units ("Phase II"). Lakeside Partners received the funds needed to complete Phase II through capital campaign contributions and grant or loan commitments from the North Carolina Housing Finance Agency ("NCHFA"), and the City of Wilmington through the HOME Investment Partnership Act. Construction of Phase II was completed subsequent to year end with the Certificate of Occupancy issued on July 5, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Principle

During the year ended June 30, 2019, the Organization adopted Accounting Standards Update ("ASU") 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This accounting standard is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The 2018 combined financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2019 only as allowed by ASU 2016-14. The retrospective application resulted in unrestricted net assets of \$6,622,517 being reported as net assets without donor restrictions and temporarily restricted net assets of \$150,102 and permanently restricted net assets of \$53,602 being reported in total as net assets with donor restrictions.

Good Shepherd Ministries of Wilmington, Inc. and Affiliate
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Basis of Presentation

The Organization prepares its combining and combined financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the combining and combined financial statements to the reader.

Use of Estimates

The preparation of combining and combined financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combining and combined financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

The combining and combined financial statements classify net assets and changes in net assets based upon the existence or absence of restrictions on use that are placed by its donors as follows:

- a) **Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated \$494,433 of net assets for board designated funds from net assets without donor restrictions for the purpose of increased hours for a clinical nurse and Lakeside Partners operations if needed.
- b) **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, which is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

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Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. From time to time during the periods presented, the Organization has had cash balances in banks that have exceeded federal depository insurance limits. Certain of the Organization's refundable advances (see Note 5) require separate cash reserve amounts to be maintained. These amounts have been included with cash and cash equivalents as shown below. Cash and cash equivalents are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Good Shepherd		
Wells Fargo - Operating Checking	\$ 627,224	\$ 506,966
Live Oak - Money Market	193,632	191,349
Live Oak - Lakeside LOC	<u>2,090</u>	<u>-</u>
Total Good Shepherd	<u>822,946</u>	<u>698,315</u>
Lakeside Partners		
Live Oak - Money Market	-	1,720,167
Wells Fargo - Operating Checking	13,512	9,222
South State Bank - Construction Checking	<u>334,752</u>	<u>907</u>
Total Lakeside Partners	<u>348,264</u>	<u>1,730,296</u>
Total Cash & Cash Equivalents	<u>\$ 1,171,210</u>	<u>\$ 2,428,611</u>

Fair Value Measurements

The Organization reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by U.S. GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

The primary use for fair value measures in the Organization's combining and combined financial statements is for recurring measurement of investments (Note 4).

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Grants and Other Receivables

Grants and other receivables are primarily unsecured, non-interest bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding grants and other receivables are collectible in full; therefore, no allowance for uncollectible receivables has been provided.

Property and Equipment

Property and equipment are reported in the combining and combined statement of financial position at cost if purchased and at fair value at the date of donation if donated. All land and buildings are capitalized. Other property and equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation of property and equipment, other than land and work in process, is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings & improvements	30 - 39 years
Furniture & equipment	5 - 10 years
Vehicles	5 years
Technology	3 - 5 years

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the combining and combined financial statements in the current period. The following is a summary of property accounts as of June 30:

	2019		2018	
	Good Shepherd	Lakeside Partners	Good Shepherd	Lakeside Partners
Land	\$ 322,685	\$ -	\$ 322,685	\$ -
Buildings & improvements	3,996,527	2,756,137	3,907,435	2,756,137
Furniture & equipment	417,575	32,640	326,383	32,640
Vehicles	243,028	-	213,960	-
Technology	83,881	-	83,881	-
Work in process - construction	-	2,989,601	-	34,273
	5,063,696	5,778,378	4,854,344	2,823,050
Less: Accumulated depreciation	(2,240,087)	(150,666)	(2,118,494)	(75,333)
Net Property	<u>\$ 2,823,609</u>	<u>\$ 5,627,712</u>	<u>\$ 2,735,850</u>	<u>\$ 2,747,717</u>

The above work in process is the construction of the Phase II units at SECU Lakeside Reserve, which were placed into service on July 5, 2019.

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Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions

Where contributed services and materials meet the criteria for recognition, they are recorded as in-kind contributions. The fair market value of in-kind contributions (primarily food, clothing, and supplies) was \$2,301,532 in fiscal year 2019 and \$1,943,699 in fiscal year 2018. While many individuals volunteer their time and perform a variety of tasks for the Organization, these services do not meet the criteria for recognition and, therefore, are not reflected in the combining and combined financial statements.

Expense Recognition and Allocation

The cost of providing the various programs and supporting activities of the Organization have been summarized on a functional basis in the combining and combined statement of activities and combining and combined statement of functional expenses. Total expenses for the year ended June 30, 2019 were \$4,930,301, which includes \$83,773 of netted special events direct expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using objective bases, such as time spent, salaries, square feet, and other bases.

Administration expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Administration activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others. The Organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and administration expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

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Income Taxes

Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken and has concluded that as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combining and combined financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2016.

Comparative Financial Information

The combining and combined financial statements include certain prior year summarized comparative, combined information in total, but not by entity or net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's combining and combined financial statements for the year then ended, from which the summarized combined information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying combined financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Subsequent events have been evaluated through September 16, 2019, which is the date the combining and combined financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the combining and combined financial statements would be required. The following subsequent event was noted:

In July 2019, the Organization completed and opened the second phase of the SECU Lakeside Reserve community, which consisted of six "breezeway quads" with an additional 24 one-bedroom housing units ("Phase II").

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3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available to meet general expenditures over the next 12 months are as follows as of June 30:

	<u>2019</u>
Operating Assets at Year End:	
Cash & cash equivalents	\$ 1,159,310
Investments convertible to cash in next 12 months	386,665
Grants & other receivables	<u>55,582</u>
Total Operating Assets at Year End	<u>1,601,557</u>
Plus: Net assets with purpose or time restrictions to be met in less than a year	<u>53,044</u>
Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u>\$ 1,654,601</u>

The Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The accompanying combining and combined statement of cash flows on page 6 identifies the sources and uses of cash and shows positive cash generated by operations. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

4. INVESTMENTS

Investments in marketable securities with readily determinable fair values and all debt securities are reported at their fair values in the combining and combined statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Board of Directors of Good Shepherd adopted an Investment Policy on October 20, 2016 to provide for the creation of and guidelines for the management of an Operating Fund and a Short-Term Reserve Fund (the "Funds"). The Funds were created for the purpose of managing investment risk and optimizing investment returns within acceptable risk parameters. The Investment Policy provides guidelines for achieving the objectives of the Funds and assigns oversight of the Funds to the Finance Committee with quarterly reporting and semi-annual evaluation of the Funds' performance. The Organization had the following investments, concentrations, and maturities as of June 30:

	<u>2019</u>	<u>2018</u>
Cash & cash equivalents	\$ 4,649	\$ 3,674
Stocks, options, & ETFs	6,201	10,013
Mutual funds	<u>375,815</u>	<u>355,700</u>
Total Investments	<u>\$ 386,665</u>	<u>\$ 369,387</u>

As of June 30, 2019 and 2018, all investments were considered Level 1 investments.

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5. REFUNDABLE ADVANCES

The Organization had refundable advances of \$2,008,974 as of June 30, 2019 resulting from various transactions used to finance the Organization's facilities. The advances have been recorded in the combining and combined financial statements as conditional gifts and, therefore, will be recognized as revenue when the conditions are met. The Organization has not been notified of any event of default for any of the refundable advances as of June 30, 2019.

	<u>2019</u>	<u>2018</u>
Good Shepherd		
On June 27, 2001, the City of Wilmington provided \$475,000 to purchase a building on Colwell Avenue. The note is non-interest bearing and is to be repaid if the building is not used for the approved purpose at any time through 2031.	\$ 475,000	\$ 475,000
On January 11, 2006, North Carolina Housing Finance Agency ("NCHFA") provided \$400,000 for the construction of an overnight shelter. The note is non-interest bearing. As long as Good Shepherd uses the shelter for its intended purpose, no payments are due until April 1, 2036. At that time, a second 30-year extension on payment of principal may be made.	<u>400,000</u>	<u>400,000</u>
Total Good Shepherd	<u>875,000</u>	<u>875,000</u>
Lakeside Partners		
On August 31, 2017, NCHFA provided \$600,000 for the construction of Phase I, a 16-unit apartment complex providing housing for chronically homeless persons with disabilities. The 20-year note is non-interest bearing. As long as Lakeside Partners uses Phase I for its intended purposes, no payments are due until September 1, 2037, at which point Lakeside Partners may request the loan to be refinanced at the same terms for another 20 years.	600,000	600,000
On November 17, 2016, the City of Wilmington and Lakeside Partners signed a 20-year non-interest bearing note for up to \$250,000 for assistance with the construction of Phase I under the provisions of the HOME Investment Partnership Act ("HOME"). As long as Lakeside Partners uses Phase I for its intended purposes as outlined in the agreement with HOME, no payments are due on the loan for 20 years, at which point the entire principal and interest balances are to be forgiven.	250,000	250,000
On March 4, 2019, the City of Wilmington and Lakeside Partners signed a 20-year non-interest bearing note for up to \$300,000 for assistance with the construction of Phase II under the provisions of the HOME Investment Partnership Act ("HOME"). As long as Lakeside Partners uses Phase II for its intended purposes as outlined in the agreement with HOME, no payments are due on the loan for 20 years, at which point the entire principal and interest balances are to be forgiven. As of June 30, 2019, \$283,974 of the \$300,000 had been advanced to Lakeside Partners.	<u>283,974</u>	<u>-</u>
Total Lakeside Partners	<u>1,133,974</u>	<u>850,000</u>
Total Refundable Advances	<u>\$ 2,008,974</u>	<u>\$ 1,725,000</u>

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On July 18, 2017, NCHFA signed a conditional commitment letter with Lakeside Partners to provide \$600,000 of assistance for the construction of Phase II, comprised of 24 one-bedroom permanent supportive housing units to provide housing for chronically homeless persons with disabilities. The conditions related to this 30-year, non-interest bearing loan have not been met; therefore, the loan has not been funded and no liability has been recorded as of June 30, 2019. Management expects the conditions contained in the loan agreement will be met upon completion of Phase II construction and anticipates the loan to be funded at that point.

The HOME Program promissory note with the City of Wilmington requires Lakeside Partners to maintain replacement reserves in a separate bank account to be used exclusively to pay for capital improvements and replacements of capital improvements for Lakeside Partners. The agreement requires an \$8,000 reserve upon the closing of the loan and requires additional amounts, increased by 2.0% each year, to be deposited each year after the closing date. See Note 7.

The NCHFA loan agreement requires Lakeside Partners to maintain operating reserves as of the date of the closing loan with a minimum required balance of \$43,470. The funds may only be used to cover the project's operating deficits for Phase I. See Note 7.

6. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	<u>2019</u>	<u>2018</u>
A non-interest bearing note payable, dated June 1, 2002, to North Carolina Housing Finance Agency due in monthly payments of \$750, which aggregate to \$180,000 over the 20-year term. The note is collateralized by the building on Colwell Avenue. The loan has been discounted to its present value using an estimated market interest rate of 7%. The balance was paid off during the fiscal year.	\$ -	\$ 30,031
A non-interest bearing note payable, dated July 19, 1999, to North Carolina Housing Finance Agency for \$120,000 collateralized by the building on Colwell Avenue. No stated payments are due. If Good Shepherd uses the Colwell Avenue property for its intended charitable purposes, \$6,000 is to be forgiven annually for 20 years. The loan has been discounted to its present value using an estimated market interest rate of 7%.	<u>5,596</u>	<u>10,814</u>
Total Debt	5,596	40,845
Less: Current maturities	<u>(5,596)</u>	<u>(12,331)</u>
Long-Term Debt, Net	<u>\$ -</u>	<u>\$ 28,514</u>

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7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or period as of June 30:

	2019	
	Good Shepherd	Lakeside Partners
Subject to Expenditure for Specified Purpose:		
Self-sufficiency	\$ 41,144	\$ -
Repairs & housing	8,900	-
Supplies	3,000	-
HOME loan (Note 5)	-	24,490
NCHFA loan (Note 5)	-	43,530
Total Expenditures for Specified Purposes	<u>\$ 53,044</u>	<u>\$ 68,020</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30:

	2019	
	Good Shepherd	Lakeside Partners
Satisfaction of Restrictions:		
Repairs & housing	\$ 198,565	\$ -
Time restricted	557,348	-
Phase II construction	-	112,415
Total Net Assets Released From Restriction	<u>\$ 755,913</u>	<u>\$ 112,415</u>

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8. RISING TIDE FUND

The Rising Tide Fund (the "Fund") includes the original value of a permanently restricted gift donated to Good Shepherd. Related income is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the Fund's objectives. The Board of Directors of Good Shepherd has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to manage the Fund.

The Fund's changes in net assets are as follows for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose or Time Restricted	Perpetual in Nature	
Rising Tide Fund net assets, beginning	\$ -	\$ 37,687	\$ 53,602	\$ 91,289
Contributions	-	-	-	-
Investment income	-	2,301	-	2,301
Net appreciation (depreciation)	-	2,154	-	2,154
Advisory fees	(998)	-	-	(998)
Released from restriction	998	(998)	-	-
Rising Tide Fund net assets, ending	<u>\$ -</u>	<u>\$ 41,144</u>	<u>\$ 53,602</u>	<u>\$ 94,746</u>

The Fund's net asset composition is as follows as of June 30, 2019:

	<u>Fair Value</u>
Cash & money market funds	\$ 2,101
Investments	92,645
Total	<u>\$ 94,746</u>

Investment Return Objectives, Risk Parameters, and Strategies. The Fund has adopted investment policies, approved by the Board of Directors, that attempt to provide a predictable stream of funding for the Fund while also maintaining purchasing power of the assets in the Fund over the long-term. The target asset mix for the Fund is 32% cash investments and 68% equity investments. Good Shepherd expects the Fund's assets, over time, to produce a rate of return in excess of 3%. Actual returns in any year may differ from this amount. Investment decisions are managed by Good Shepherd to not expose the Fund to unacceptable risks.

Spending Policy. The Fund seeks to identify persons who use Good Shepherd's other programs and have demonstrated a strong commitment to achieving a productive and sustaining life. Management identifies candidates then the Board approves candidates and expenditures from donor-restricted funds that will help the beneficiary attain self-sufficiency. Spending occurs as net assets with donor restrictions are available and as candidates have been identified and approved.

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9. INTERCOMPANY LOAN

On May 20, 2019, Good Shepherd loaned Lakeside Partners \$500,000 to cover construction costs. The funds will be repaid when Lakeside Partners receives the final payment from NCHFA.

10. RELATED PARTY

The Clark James Foundation, Inc. (the "Foundation") was created as a 501(c)(3) organization to support Good Shepherd exclusively. Two board members of Good Shepherd also serve as board members of the Foundation. However, Good Shepherd does not control the Foundation through appointments or voting interest. Contributions of \$226,001 in fiscal year 2019 and \$224,461 in fiscal year 2018 from the Foundation are included in the accompanying combining and combined financial statements. Good Shepherd contributed \$375,000 in fiscal year 2019 to the Foundation. The expenses are included in the accompanying combining and combined financial statements.

11. MANAGEMENT PLAN AND AGREEMENT

During fiscal year 2017, Good Shepherd entered into a Management Plan and Agreement (the "Management Plan") with Lakeside Partners. Under the Management Plan, Good Shepherd agrees to manage and operate Lakeside Partner's Phase I and all related programs in return for an annual management fee from Lakeside Partners. Management fee income of \$35,000 for the years ended June 30, 2019 and 2018 has been included in Good Shepherd's revenue on the accompanying combining and combined statement of activities. Management fee expense of \$35,000 for the years ended June 30, 2019 and 2018 has been included in Lakeside Partner's professional fees on the accompanying combining and combined statement of functional expenses.

12. RETIREMENT PLAN

Good Shepherd established a SEP/IRA retirement plan, which covers all employees who have at least six months of work experience and compensation over \$450. The plan permits Good Shepherd to contribute up to 25% of salaries annually. Management determines the contribution amount annually based on an analysis of operating performance and cash available at calendar year end. Retirement expense was \$40,000 for fiscal year 2019 and \$30,000 for fiscal year 2018.

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13. RISK MANAGEMENT

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

The Organization purchases commercial insurance coverage against risk of loss due to errors and omissions, property damage and theft, and various other insurable risks. The Organization carries blanket building and blanket content insurance in the amount of \$4,305,000 for 2019 and 2018 with a deductible of \$1,000 for all covered perils, except named windstorm. For 2019 and 2018, the deductible for losses due to windstorm and/or hail was \$5,000 with a 1% named storm deductible per occurrence.

For 2019 and 2018, the Organization was insured for workers' compensation and employer's liability. In both 2019 and 2018, general liability was written on an occurrence basis. Excess commercial liability insurance is purchased to provide coverage above the underlying limits for general liability, auto liability, employer's liability, and employee benefits liability.

No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.